pensions & investments

Entire contents copyright 1980 by Crain Communications Inc. All rights reserved.

The newspaper of corporate and institutional investing • $1.25 an issue • $30 a year • Jan. 7, 1980

New York State hires five advisers

By Linda Sojacy

ALBANY—The $11.7 billion New York State Common Retirement Fund, in an effort to improve its common stock performance, has hired five New York equity advisers, effective February 1980.

The new advisers are: Alliance Capital Management Corp.; Lazard Freres & Co.; Oppenheimer Capital Corp.; L.F. Rothschild, Unterberg, Towbin, and J. & W. Seligman & Co.

Each adviser will initially receive $75 million transferred from three of the fund's other advisers: U.S. Trust Co. of New York Bank of New York, and Chemical Bank, New York.

According to Madelon Talley, director of investments and cash management for the fund, the assets were not taken from the managers solely because of their performance. As she explained, "we're trying to get improved returns incrementally. We're working towards evening out the amount to $200 million per manager."

"With our statutory guidelines," Mrs. Talley continued, "we have limitations on what we can invest in and that makes it hard for investment advisers. We're trying to work it so we can improve on every side to help them."

Mrs. Talley further explained that the system of when to give an adviser money will be changed. "We'll try to determine the times to give advisers the assets on an opportunistic basis as opposed to dollar-averaging, which is what we have been doing," she said.

The fund's other equity advisers are Morgan Guaranty Trust Co. of New York, and Dreyfus Management Inc., also of New York. According to Mrs. Talley, the tendency with new money would be to add it to the new advisers and to the fund's internal $575 million index fund, first.

In fact, in the past year and a half, the retirement fund has moved $1 billion away from its old advisers to the index fund (which was started in August, 1978) and the new advisers.

The objectives set for the new advisers, Mrs. Talley explained, are "to beat the S&P and to be in the top quartile." For the calendar year to date through Nov. 30, 1979, the fund's common stock performance was 15.084% compared with 15.869% for the S&P for the same period, and 16.773 for the index fund.

For the 11 months through November, the equity returns for the New York State Common Retirement Fund's advisers are as follows: Bank of New York, 15.89%; Chemical Bank, 14.3%; Dreyfus, 16.1%; Morgan, 13.1%; U.S. Trust, 13%.

For the five year compound annual rate of return, the Bank of New York had 10.9%; Chemical was 11.05%; Dreyfus, 14.1%; Morgan, 12.4%, and U.S. Trust, 10.1%. The compound annual rate of return for the total common stock portfolio for the five years, as of November 30 was 10.8%, while the S&P was 13.8%.

U.S. Trust acts as adviser for the fixed-income funds that are managed inhouse. ▪

Stocks: the medium for the '80s?

By Michael Clowes

NEW YORK—Are common stocks the investment medium of the Eighties?

Yes, or at least, maybe, according to the pension plan sponsors, investment managers, research directors and economists surveyed by *Pensions & Investments* staff at the beginning of the new decade.

Of those surveyed, the corporate and local government executives responsible for overseeing pension operations were by far the most bullish, with one major corporation switching its more than $4 billion fund 70% into equities.

As noted on page 17, most of the corporate officers like the same stocks—defense stocks, oil industry stocks, technology stocks which can contribute to improved productivity and efficiency, drug stocks and entertainment stocks.

But most of them had some reservations and conditions on their predictions.

The two major conditions were that the oil producing nations would provide enough oil to ensure that the West did not collapse into a depression, and that the U.S. and other governments would provide leadership and effective anti-inflation programs.

"If OPEC acts in a rational manner in providing oil, if there is peace in the Mideast, if there is an active attempt to control inflation—all of the ifs could make for an interesting equity environment for the 1980s," said Ray Colotti, director of pension asstet management for Sperry Corp.

But the economists surveyed (page 17) predicted that inflation and low productivity would continue to be the overriding concerns in the next decade, and changing demographics will start playing an increasingly important role.

While some of the economists predicted that the rate of inflation would begin to decline during the decade, others saw no real decrease.

Beryl Sprinkle, economist for the Harris Bank, Chicago, spoke for those who were optimistic: "I think there will be some progress in those areas, but how far we go depends on the voters," he said.

"At least the causes (of inflation and low productivity) are being identified. The progress will be cumbersome, slow and painful, but my guess is that some of it will be turned around."

Research directors seem bullish for the longer run, though they are cognizant of the problems and uncertainties that lie ahead.

They generally believe the Eighties will be positive for equities because the United States must rebuild its infrastructure.

"The overall infrastructure of the U.S. is rundown—plant, equipment, roads, defense. One way or another the building blocks have to be replaced," said Burton Siegel, first vp and director of research at Drexel, Burnham Lambert.

"Further, as William J. Gillard, director of investment policy at Kidder, Peabody, and Robert Farrell, vp and manager of the market analysis department at Merrill Lynch, point out, bonds may have lost their appeal.

Five-year equity results will look pretty good when the end of year performance figures become available and the 1973-74 bear market results can be dropped, and, at the same time, recent bond results have been poor and the bond markets have been shaken by the Federal Reserve Bank's actions last October.

Thus major investors, especially pension funds, may again increase their equity exposures which have been historically low in the past few years.

Such a move would be strongly bullish for the equities markets. ▪

(More page 17-27)

GT&E appoints 3 international; brings total to 10

By Clare Minick

STAMFORD, CT.—General Telephone & Electronics Corp. (GT&E) has become the undisputed frontrunner in international investing among U.S. pension funds by appointing three additional international managers bringing its total to 10.

The three new appointments are Ivory & Sime International Inc., Chatham, N.J., Morgan Grenfell Investments Services Ltd., New York, and Schroder Maess International Ltd., New York.

The amount allocated to each manager was not available. However, Harold McGraw, assistant vp-investment research, said that GT&E intends to have 7% to 10% of total assets invested internationally by the end of 1980. GT&E had approximately $2.1 billion in employe benefit assets at the end of 1979.

In December 1979, GT&E appointed Rowe Price Fleming International Inc., Baltimore, as an international manager.

The other international managers selected during 1979 were GT Capital Management Inc., San Francisco, Warburg Investment Management International Ltd., New York, Fidelity International Investment Management Inc., Boston, and State Street Bank and Trust, Boston.

In addition, during 1979 GT&E revamped a balance account with Putnam Advisory Co., Boston, converting a portion to international investments.

Though not a new manager, Morgan Guaranty Trust Co. of New York also invests internationally for GT&E.

GT&E has had a history of being the first U.S. penison fund client for international managers. GT&E became State Street's first client for its international index fund.

Moreover, GT&E was the first U.S. pension fund client for Fidelity, Morgan Grenfell, Rowe Price Fleming and Schroder. Each of these managers, however, run substantial amounts of non U.S. money, both tax-exempt and taxable.

GT&E also became the first outside client for a U.S. manager during 1979, INCO Capital Management, the investment management subsidiary of INCO. ▪

Inside

'Fails' scrutinized by bankers, sponsors

3 A 'fail float' may conjure up the image of a flowery item that couldn't make the Tournament of Roses Parade last week, but for pension fund sponsors and their master trustees the subject is getting warmer. The big question right now seems to be how prevelant 'fails' are, and even the bankers who should know the answer to that one can't seem to agree.

Sponsors setting more policy

6 Pension fund sponsors have been assuming a greater role in developing pension fund investment policies, according to a preliminary report by the financial research firm of Greenwich Research Associates which was presented to the President's Commission on Pension Policy last month.

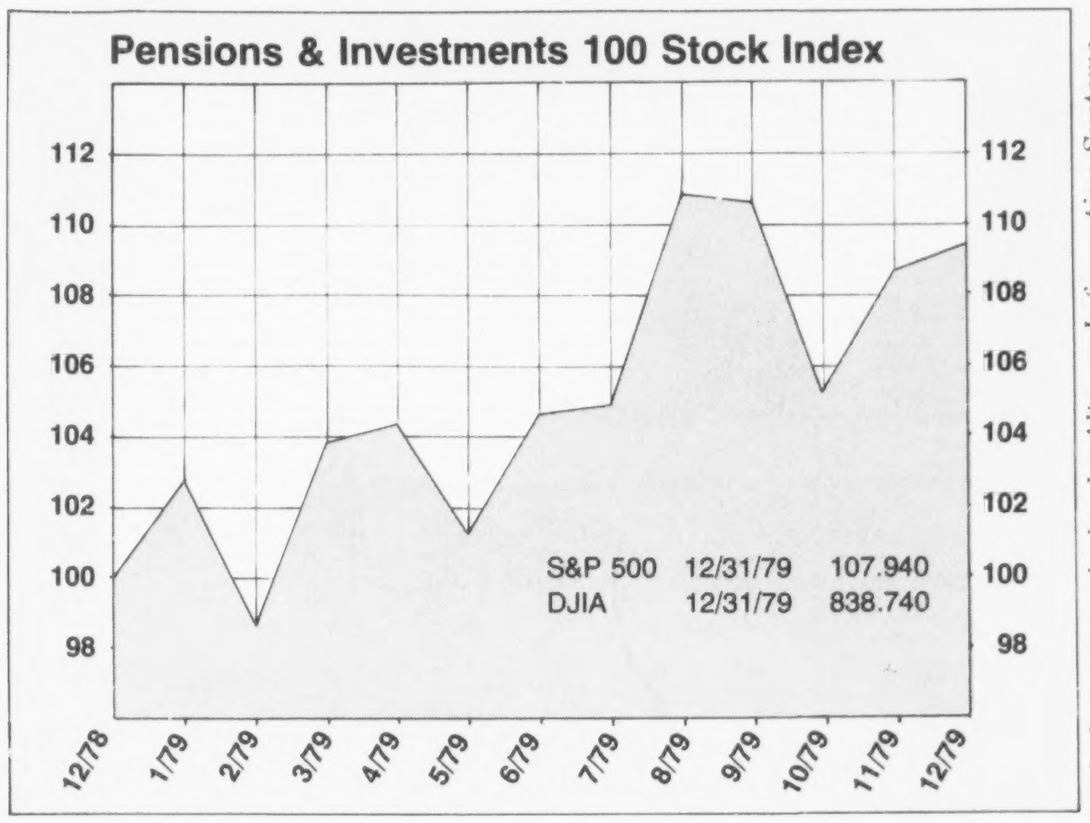
Those top 50 now look shifty, not nifty

23 A decade ago, some growth investors believed there was a list of stocks—commonly known as the Nifty Fifty—which could be bought and held indefinitely. An analysis by Robert Doran and Laurie Gabriel of Thorndike, Doran, Paine & Lewis, Boston, suggests that the Nifty Fifty might better be known as the Shifty Fifty, and the analysis has important implications for growth investing generally.

Drum roll for equities? No way!

24 As we enter the 1980s, do the drums roll for equities? Not on your life, says bull David Bostian of Bostian Research Associates, New York. In fact, he notes, equities as a percent of GNP now approximate the low levels most recently seen in 1974 and 1949 and are only five percentage points away from the historic low of 31% of GNP seen at the depths of the market collapse of 1932.

Happy New Year? Maybe not!—page 12



Index system design by Altman Information Systems

P and I Index will track top holdings of institutions

NEW YORK—The P&I Index of the 100 largest institutional holdings finished 1979 up 9.44% for the year compared with a gain of 12.3% for the S&P 500.

The P&I Index, which was set at 100 on Jan. 1, 1979, also underperformed the New York Stock Exchange Composite, which was up 15.5% for the year, but it beat the Dow Jones Industrial Average, which was up only 4.2%.

These results show that the larger companies, which make up the majority of the largest holdings of the institutions, significantly underperformed the smaller companies during 1979.

However, closer examination of the holdings in the index showed that virtually all of the gain by the index was produced by oil company, or oil industry stocks.

The oil industry stocks in the index gained 41.4% for the year, while the index minus the oil companies gained only 0.2%.

The largest gains by oil stocks in the P&I Index were 107.6% by Standard Oil of Ohio, and 100.6% by Superior Oil.

Interestingly, Exxon Corp., the second largest holding in the P&I Index, was up only 12.2%, and was the only oil stock in the index to underperform the S&P 500.

	%Change 1/1/79-12/31/79
P&I 100:	9.4
S&P 500:	12.3
Dow Jones:	4.2
NYSE:	15.5

THE *P&I* Index, shown on this page for the first time, is an index based on the 100 largest holdings of investment institutions with more than $100 million in assets.

The holdings were taken from the 13f reports filed each quarter with the Securities and Exchange Commission. They were accumulated and published by Computer Directions Advisors Inc., Silver Spring, Md.

The index, which was developed for *Pensions & Investments* by Altman Information Systems Inc., Chicago, a division of Meisrow, is designed to provide an index of the stocks most held by large institutions against which other institutionally managed portfolios may be measured.

The 100 largest holdings gathered by CDA are the favorite stocks of the major banks, insurance companies, counseling firms and internally managed pension funds.

The holdings underlying the index will be revised each quarter to reflect changes in the top 100 in such a way that the continuity of the index will not be affected.

The level of the index will be measured seven days before each publication date of *P&I* and reported in each issue.

The purpose of the index is to provide a measuring stick more representative of how most pension and other tax-exempt assets are invested than is provided by the Standard & Poor's 500 or the Dow Jones Industrial Index.

The index, which is a weighted index, reflects only capital appreciation, though total return will be included in future reports.

While the index is closer to actual portfolios than other major indices, it does have weaknesses.

The most significant weakness is that it covers only 100 issues in a universe of more than 4,000. However, as noted, it is a universe selected, in effect, by the nation's largest money managers.

A second weakness is that there is no breakdown of performance by the type of institution holding, the size of portfolio, or the objectives and constraints placed upon the fund manager.

Altman Information Systems Inc., which developed the index for *P&I*, is a Chicago-based consulting firm specializing in the use of computers for security analysis and other investment applications. ■

P&I Index top 100 stocks

Company	Holdings (millions)
International Business Machs	17,740
Exxon Corp	10,304
American Tel & Teleg	7,345
General Elec Co	5,158
General Mtrs Corp	3,792
Schlumberger Ltd	4,962
Standard Oil Co Ind	4,774
Atlantic Richfield Co	4,686
Standard Oil Co Calif	3,963
Mobil Corp	4,096
Eastman Kodak Co	3,433
Minnesota Mng & Mfg Co	3,573
Phillips Pete Co	3,779
Du Pont E I De Nemours	3,062
Xerox Corp	3,066
Merck & Co Inc	3,125
Halliburton Co	3,011
Sears Roebuck & Co	2,543
Lilly Eli & Co	2,816
Caterpillar Tractor Co	2,600
Johnson & Johnson	2,740
Philip Morris Inc	2,587
Procter & Gamble Co	2,368
Dow Chem Co	2,318
Texaco Inc	2,256
Ford Mtr Co Del	1,699
American Home Prods	2,189
Smithkline Corp	2,578
Gulf Oil Corp	2,124
Conoco Inc	2,216
Burroughs Corp	2,062
Getty Oil Co	2,302
Digital Equip Corp	2,085
K Mart Corp	1,670
Coca Cola Co	1,707
Standard Oil Co Ohio	2,289
Avon Prods Inc	1,368
Sun Inc	1,788
Union Oil Co Calif	1,571
Hewlett Packard Co	1,671
Citicorp	1,555
Weyerhaeuser Co	1,409
Union Pac Corp	1,490
Aetna Life & Cas Co	1,418
American Express Co	1,267
Reynolds R J Inds Inc	1,523
Deere & Co	1,418
Bankamerica Corp	1,383
Marathon Oil Co	1,550
Pfizer Inc	1,561
Pepsico Inc	1,222
Texas Instrs Inc	1,223
Bristol Myers Co	1,345
Mcdonalds Corp	1,147
Boeing Co	1,316
General Tel & Electrs	1,265
Abbott Labs	1,353
Aluminum Co Amer	1,166
International Paper Co	1,043
Monsanto Co	1,236
Dresser Inds Inc	1,143
Georgia Pac Corp	1,057
International Tel	1,041
Tenneco Inc	1,163
Kellogg Co	1,069
Emerson Elec Co	1,126
Raytheon Co	1,227
Ncr Corp	1,031
Morgan J P & Co Inc	985
Penney J C Inc	926
Revlon Inc	927
Motorola Inc	1,036
Travelers Corp	992
Honeywell Inc	1,098
Union Carbide Corp	990
Schering Plough Corp	926
Superior Oil Co	1,311
Amp Inc	1,118
Connecticut Gen Ins	915
Gannett Inc Del	946
Sperry Corp	945
American Broadcasting	782
Baxter Travenol Labs	903
General Reins Corp Del	859
Texas Utils Co	856
Warner Lambert Co	786
Shell Oil Co	960
Cbs Inc	838
American Intl Group Inc	812
General Foods Corp	761
Baker Intl Corp	872
General Mls Inc	730
Squibb Corp	832
Beatrice Foods Co	737
Intel Corp	834
Champion Intl Corp	652
Cities Svc Co	806
Union Camp Corp	637
Upjohn Co	733
Federated Dept Stores	674